



**COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER**

KENNETH HAHN HALL OF ADMINISTRATION
500 WEST TEMPLE STREET, ROOM 525
LOS ANGELES, CALIFORNIA 90012-3873
PHONE: (213) 974-8301 FAX: (213) 626-5427

JOHN NAIMO
ACTING AUDITOR-CONTROLLER

May 12, 2014

TO: Supervisor Don Knabe, Chairman
Supervisor Gloria Molina
Supervisor Mark Ridley-Thomas
Supervisor Zev Yaroslavsky
Supervisor Michael D. Antonovich

FROM: John Naimo
Acting Auditor-Controller

SUBJECT: **COUNTYWIDE UTILITY USER TAX EXPENDITURE AUDIT REPORT AS OF
JUNE 30, 2013**

Los Angeles County Code Chapter 4.62.240 (Code) authorizes the County to collect a Utility User Tax (UUT) on communication services from residents in unincorporated areas of the County. The Code requires the County to have an annual audit to verify that the taxes have been properly collected and spent. We contracted with an independent Certified Public Accounting firm, Bazilio Cobb Associates (BCA), to audit how the UUT funds were spent. Attached is BCA's audit of the County's Schedule of UUT Countywide Expenditures (Schedule) for the Fiscal Year 2012-13.

BCA issued an unqualified opinion on the Schedule, indicating that the Schedule presents the UUT expenditures fairly, in conformity with accounting principles generally accepted in the United States of America. BCA did not examine the collection of the UUT, which will be audited separately.

As part of the audit, BCA reviewed the County's internal controls over financial reporting, and identified no material weaknesses. BCA also examined the County's compliance with certain laws and regulations pertaining to UUT and the County's adopted budget, and did not identify any instances of noncompliance.

Please call me if you have any questions, or your staff may contact Robert Smythe at (213) 253-0101.

JN:AB:RS

Attachment

c: William T Fujioka, Chief Executive Officer
Sachi A. Hamai, Executive Officer, Board of Supervisors
Public Information Office
Audit Committee

COUNTY OF LOS ANGELES

Schedule of Utility User Tax Countywide Expenditures With Independent Auditor's Report

June 30, 2013

BCA Bazilio Cobb Associates

Certified Public Accountants and Consultants
21250 Hawthorne Blvd. Suite 150 Torrance, CA 90503
t: (310) 792-4640 f: (310) 792-4140

COUNTY OF LOS ANGELES
Schedule of Utility User Tax Countywide Expenditures
For the Year Ended June 30, 2013

Table of Contents

	<u>Page</u>
Independent Auditor's Report	1
Schedule of UUT Countywide Expenditures	3
Notes to Schedule of UUT Countywide Expenditures	4
Independent Auditor's Report on Compliance with Requirements Applicable to Utility User Tax Expenditures in Accordance with the Measure U	7
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	9
Schedule of Findings and Questioned Costs	11
Status of Prior Year Findings and Questioned Costs.....	12



Certified Public Accountants and Consultants
21250 Hawthorne Blvd. Suite 150 Torrance CA 90503
t: (310) 792-4640 f: (310) 792-4140

INDEPENDENT AUDITOR'S REPORT

John Naimo
Acting Auditor-Controller
County of Los Angeles
Los Angeles, California

Report on the Schedule of Utility User Tax Countywide Expenditures

We have audited the accompanying Schedule of Utility User Tax (UUT) Countywide Expenditures (Schedule) of the County of Los Angeles (County) as of and for the year ended June 30, 2013, and the related notes to the Schedule, as listed in the table of contents.

Management's Responsibility for the Schedule

The County's management is responsible for the preparation and fair presentation of the Schedule in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the Schedule that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the Schedule based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Schedule is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Schedule. The procedures selected depend on the auditor's judgment, including assessment of the risks of material misstatement of the Schedule, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the Schedule in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the

reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the Schedule.

We believe that our audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the Schedule referred to above present fairly, in all material respects, the Utility User Tax Countywide Expenditures of the County, as of June 30, 2013, in accordance with accounting principles generally accepted in the United States of America.

Other Matter

As discussed in Note 3 to the Schedule, the accompanying Schedule is intended to present only the Utility User Tax Countywide Expenditures. They do not purport to, and do not, present fairly the financial position of the County of Los Angeles as of June 30, 2013, and the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 20, 2014 on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance.

Basilio Cobb Associates

Torrance, CA
March 20, 2014

COUNTY OF LOS ANGELES
Schedule of UUT Countywide Expenditures
For the Year Ended June 30, 2013

	Certified UUT Expenses	Audit Adjustments	Audited UUT Expenses
Auditor-Controller			
Services and supplies	\$ 38,000	\$ -	\$ 38,000
Board of Supervisors			
Services and supplies	1,371,868	-	1,371,868
Chief Executive Office (CEO)			
Salaries and employee benefits	18,815	-	18,815
CEO Capital Projects			
Capital assets	4,860	-	4,860
CEO Nondepartmental Special Accounts			
Services and supplies	-	-	-
District Attorney			
Salaries and employee benefits	1,408,000	-	1,408,000
Health Services¹			
Various	19,693,000	-	19,693,000
Parks and Recreation			
Salaries and employee benefits	11,324,000	-	11,324,000
Services and supplies	3,584,752	-	3,584,752
Total	14,908,752	-	14,908,752
Public Library²			
Salaries and employee benefits	6,217,719	-	6,217,719
Services and supplies	4,495,315	-	4,495,315
Total	10,713,034	-	10,713,034
Public Works			
Services and supplies	229,000	-	229,000
Regional Planning³			
Services and supplies	138,000	-	138,000
Sheriff			
Salaries and employee benefits	9,136,327	-	9,136,327
Services and supplies	57,238	-	57,238
Total	9,193,565	-	9,193,565
Sheriff - County Services			
Salaries and employee benefits	1,251,000	-	1,251,000
Services and supplies	106,000	-	106,000
Total	1,357,000	-	1,357,000
Treasurer Tax Collector			
Salaries and employee benefits	113,431	-	113,431
Total UUT Expenses⁴	\$ 59,187,325	\$ -	\$ 59,187,325

See Accompanying Notes to the Schedule of UUT Countywide Expenditures

¹ The County allocated approximately \$19.693 million in UUT funds to the Department of Health Services (DHS) for fiscal year ending June 30, 2013. This allocation is part of the approximate \$515 million of annual subsidies provided to County hospitals to provide medical services throughout the County. Because DHS uses the subsidy to provide medical services throughout the County, the UUT funds allocated to DHS were excluded from this audit.

² The services and supplies amount for the Department of Public Library reflects a net adjustment of \$67,000 primarily for over claimed expenditures in FY 2011-12.

³ The services and supplies amount for the Department of Regional Planning reflects a midyear FY 2011-12 allocation to the Department of Regional Planning for one-time UUT funding.

⁴ See Note 4 of accompanying Notes to the Schedule of UUT Countywide Expenditures

**COUNTY OF LOS ANGELES
Notes to the Schedule of UUT Countywide Expenditures
For the Year Ended June 30, 2013**

NOTE 1 – Organization

General

The County of Los Angeles is a legal subdivision of the State of California charged with general governmental powers. The County's powers are exercised through an elected Board of Supervisors (Board) which, as the governing body of the County, is responsible for the legislative and executive control of the County.

Utility User Tax

UUT is a general tax which is used to provide essential government services. The Los Angeles County Code (Code), Title 4 Revenue and Finance, Chapter 4.62, governs the UUT. The Code provides that utility companies are to collect UUT from service users and remit these monies to the County Treasurer and Tax Collector. A service user is a person that is required to pay based on the consumption of electricity, gas, telephone, cable television services and other communication services. The tax is imposed at a rate of 4.5% and collected by the utility companies or their billing agent. Tax collected by the utility companies is remitted to the County Treasurer and Tax Collector on a monthly basis.

Through the County budget process, the Board approves appropriation authority allowing selected departments to expend their UUT allocations to enhance unincorporated area services. There are a total of thirteen budget units (ten departments) that have ongoing UUT funding. They are as follows: Auditor-Controller, Board of Supervisors, Chief Executive Office, District Attorney, Health Services, Parks and Recreation, Public Library, Public Works, Sheriff and Treasurer and Tax Collector. In addition, the Chief Executive Office administers UUT funding in Capital Projects and Nondepartmental Special Account budget units.

NOTE 2 – Summary of Significant Accounting Policies

The Schedule has been prepared in conformity with Generally Accepted Accounting Principles in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles for governments. The more significant of the County's accounting policies with regard to the UUT are described below:

**COUNTY OF LOS ANGELES
Notes to the Schedule of UUT Countywide Expenditures
For the Year Ended June 30, 2013**

NOTE 2 – Summary of Significant Accounting Policies (Continued)

Basis of Accounting

The modified accrual basis of accounting is used for the UUT expenditures. Under the modified accrual basis of accounting, expenditures are generally recorded when a liability is incurred, as under accrual accounting.

Budgetary Accounting

The established legislation and adopted policies and procedures provide that the County's Board approves an annual budget. Annual budgets are adopted on a basis consistent with generally accepted accounting principles in the United States of America for all governmental funds.

The County budget is organized by budget unit and expenditure object. Budget units are established at the discretion of the Board. Each individual fund constitutes a budget unit. Expenditures are controlled on the object level for all budget units within the County. The County prepares a separate budgetary document, the County Budget, which demonstrates legal compliance with budgetary control.

Use of Estimates

The preparation of the Schedule in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of expenditures during the reporting period. Actual results could differ from those estimates.

NOTE 3 – Activities Excluded from the Schedule

This report only reflects UUT expenditures within various departments of the County. Other activities of the County are not included in this report.

**COUNTY OF LOS ANGELES
Notes to the Schedule of UUT Countywide Expenditures
For the Year Ended June 30, 2013**

NOTE 4 – Expenditures

Total adjusted certified UUT expenditures for the year ended June 30, 2013 was \$59,187,325. In addition to these UUT expenditures, there were additional expenditures for the enhancement of unincorporated area services that were funded by the General Fund Balance. The total value of such services provided by both the UUT and the General Fund Balance during fiscal year 2013 was \$62,022,321.

	Utility User Tax	\$ 59,187,325
	General Fund Balance	<u>2,834,996</u>
Total expenditures for enhancement of unincorporated area services		<u>\$ 62,022,321</u>

NOTE 5 – Subsequent Events

In preparing the Schedule, the County has evaluated events and transactions for potential recognition or disclosure through March 20, 2014, the date the Schedule of UUT Countywide Expenditures was issued.



Certified Public Accountants and Consultants
21250 Hawthorne Blvd. Suite 150 Torrance CA 90503
t: (310) 792-4640 f: (310) 792-4140

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
WITH REQUIREMENTS APPLICABLE TO THE UTILITY USER TAX
EXPENDITURES IN ACCORDANCE WITH THE MEASURE U**

John Naimo
Acting Auditor-Controller
County of Los Angeles
Los Angeles, California

Report on Compliance

We have audited the County of Los Angeles (County) compliance of the Utility User Tax (UUT) Countywide Expenditures with the types of compliance requirements described in the *Measure U* and the *County's Adopted Budget* for the year ended June 30, 2013.

Management's Responsibility

County's management is responsible for compliance with the requirements of laws and regulations applicable to UUT expenditures.

Auditor's Responsibility

Our responsibility is to express an opinion on the County's compliance with UUT expenditures based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on UUT expenditures occurred. An audit includes examining, on a test basis, evidence about the County's compliance with those requirements and performing such other procedures as we considered necessary under the circumstances.

We believe that our audit provides a reasonable basis for our opinion on UUT expenditures. However, our audit does not provide a legal determination of the County's compliance.

Opinion on UUT Expenditures

In our opinion, the County complied, in all material respects, with the requirements referred to above that could have a direct and material effect on the UUT expenditures for the year ended June 30, 2013.

Report on Internal Control over Compliance

Management of the County is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the County's internal control over compliance with the types of compliance requirements that could have a direct and material effect on UUT expenditures as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance and to test and report on internal control over compliance in accordance with the *Measure U* and the *County's Adopted Budget*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of the UUT expenditures that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended for the information and use of the management of the County, the Board of Supervisors and the Auditor-Controller, and is not intended to be and should not be used by anyone other than these specified parties.



Torrance, California
March 20, 2014



Certified Public Accountants and Consultants
21250 Hawthorne Blvd. Suite 150 Torrance CA 90503
t: (310) 792-4640 f: (310) 792-4140

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

John Naimo
Acting Auditor-Controller
County of Los Angeles
Los Angeles, California

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Schedule of Utility User Tax Countywide Expenditures (Schedule) of the County of Los Angeles (County) as of and for the year ended June 30, 2013, and the related notes to the Schedule, which collectively comprised the County's basic Schedule, and have issued our report thereon dated March 20, 2014.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the County's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the Schedule, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Schedule will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County's Schedule is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of the Schedule amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that is required to be reported under *Government Auditing Standards*.

Restriction on Use

This report is intended for the use of the management of the County, the County Board of Supervisors and the Auditor-Controller, and is not intended to be and should not be used by anyone other than these specified parties.

Bajilio Cobb Associates

Torrance, California
March 20, 2014

**COUNTY OF LOS ANGELES
Schedule of Utility User Tax Countywide Expenditures
For the Year Ended June 30, 2013**

Schedule of Findings and Questioned Costs

No findings noted for fiscal year ended June 30, 2013.

**COUNTY OF LOS ANGELES
Schedule of Utility User Tax Countywide Expenditures
For the Year Ended June 30, 2013**

Status of Prior Year Findings and Questioned Costs

There are no prior year findings reported.